FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

Electric Reconciliation Mechanism and
Inflation Adjustment Filing

D.T.E. 02-_______

TESTIMONY AND SCHEDULES
OF
DOUGLAS J. DEBSKI

ON BEHALF OF
FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

Presented to the
Massachusetts Department of Telecommunications and Energy

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I. INTRODUCTION

Q. Please state your name, your position, and business address.

A. My name is Douglas J. Debski. I am a Project Leader of Regulatory Design for Unitil Service Corp., an affiliate of Fitchburg Gas and Electric Light Company ("Fitchburg" or the "Company"). My business address is 6 Liberty Lane West, Hampton, New Hampshire, 03842-1720. Both Companies are members of the Unitil System.

Q. Please describe your educational background.

A. In 1987, I graduated *cum laude* from the University of New Hampshire with a Bachelor of Science Degree in Mathematics. Since my graduation and since joining Unitil in 1988, I have attended a number of courses to supplement my education and which relate particularly to the testimony I provide for the Department today. For example, I have taken courses pertaining to load research sample design and analysis, including "Sampling Methods and Statistical Analysis in Power Systems Load Research" by the Georgia Institute of Technology and "Advanced Sample Design and Analysis Techniques of Load Research" by the Association of Edison Illuminating Companies Load Research Committee.

Q. Please describe your professional background.

A. As stated, I joined Unitil Service Corp. in May 1988. Since that time, I have prepared numerous regulatory filings, tariffs, price analysis and design, load research studies, and load forecasting for or on behalf of Fitchburg Gas and Electric Light Company ("FG&E") and its retail electric affiliate, Unitil Energy Systems, Inc. These projects, after review, have been filed at the Department of Telecommunications and Energy ("Department") and the New Hampshire Public Utilities Commission, as applicable.

Q. Have you previously testified before the Department or any other regulatory body?

A. Yes, I prepared written testimony filed with the Department in D.T.E. 01-103 and have testified before the New Hampshire Public Utilities Commission.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present and explain the proposed changes to FG&E's rates resulting from its annual Reconciliation Mechanism and Inflation Adjustment filing. In particular, my testimony will describe the rate design on individual rate components. In addition to the mechanics of the rate design, I will summarize the impacts of each individual rate component proposed for effect on January 1, 2003, and provide a complete summary of all rates by class. I will support the revised rate schedules, provide bill impact calculations, calculate the annual inflation adjustment, and determine the proposed Standard Offer Service Fuel Adjustment ("SOSFA") for January 1, 2003.

Q. Are you sponsoring any schedules as part of your testimony?

A. Yes. I am sponsoring:

(1) a derivation of the SOSFA rate and demonstration of SOSFA costs and deferrals (Schedule DJD-1);

(2) a redline version of the proposed tariffs (Schedule DJD-2);

(3) a summary table of all the proposed rates (Schedule DJD-3);

(4) all rate design and pricing models (Schedule DJD-4);

(5) the derivation of the annual inflation factor (Schedule DJD-5); and,

(6) a comprehensive set of bill impacts demonstrating the 15% rate reduction for Standard Offer Customers versus August 1997 rates and the impact of the proposed rates over current rates for both Standard Offer Service and Default Service customers (Schedule DJD-6).

III. TRANSITION CHARGE ADJUSTMENT

Q. Was there an over or an under collection in the Transition Charge Account at year end 2002?

A. FG&E calculates that there will be an undercollection that is added to the 2003 Transition Charge Deferral Balance.

Q. Will the Transition Charge Deferral balance be eliminated by year-end 2003 if the Department accepts the rate proposed by FG&E?

A. No. Because St. 1997, ch. 164 ("the Electric Restructuring Act") requires that FG&E maintain a price cap, FG&E cannot increase its rates in order to eliminate either the Transition Charge Deferral in its entirety or the deferral from 2002. However, FG&E

believes that rate principles historically followed by the Department, most notably the avoidance of rate shock to consumers, would also militate against raising FG&E's rates with the goal to eliminate FG&E's Transition Charge Deferral in a single year. Accordingly, FG&E will continue to reduce the amounts in the Transition Charge Deferral to the maximum extent possible in light of the headroom permitted by the legislature.

Q. Is FG&E ensuring that it is minimizing the Transition Charge Deferrals?

A. While FG&E is constrained in its ability to design rates, it is following the guidelines set by the Department in a December 17, 1999 letter to its jurisdictional distribution companies. In that letter, the Department required the companies to adhere to Uniform Transition Charges, or UTC.

Q. Does a UTC differ from the weighted average Transition Charge?

A. Yes. The rate design process is unusual because FG&E must combine the following mandates: a UTC, a 15% rate reduction for all customers and the base rates implemented on December 2, 2002 as a result of FG&E’s electric division rate request in D.T.E. 02-24/25.

Q. Is there a gap between the UTC and a weighted average Transition Charge calculation?

A. Yes, there is. The gap between the UTC and the weighted average Transition Charge has decreased from $0.00217 for 2002 to $0.00032 for 2003. Most of the decrease is due to the rate redesign in D.T.E. 02-24/25. FG&E expects this gap will add approximately $159,000 in additional deferrals to FG&E's Transition Charge Deferral balance.

Q. What is the carrying charge borne by future customers for these deferrals?

A. The additional deferrals will accrue interest in 2003 at the carrying charge permitted on the Transition Charge Account balance in D.T.E. 01-103, or 9.05 percent. This is shown on FG&E's revised tariff M.D.T.E. No. 98 - *Transition Cost Adjustment*. Future customers will be responsible for these balances, including interest.

IV. STANDARD OFFER SERVICE FUEL ADJUSTMENT

Q. Is FG&E proposing to revise its Standard Offer Service Fuel Adjustment ("SOSFA") in this filing?

A. Yes. FG&E proposes a SOSFA of $0.00660 per kWh to be effective January 1, 2003. When combined with the base Standard Offer rate of $0.04700 per kWh, the total rate to be billed for Standard Offer Service is $0.05360 per kWh.

Q. What is the difference between the proposed SOSFA and the current SOSFA?

A. The proposed SOSFA is a decrease of $0.00766 per kWh versus the current rate of $0.01426 per kWh. This represents a decrease of $3.83, or 5.63% on a 500 kWh typical residential bill, as shown in the summary table of proposed rates included with the cover letter.

Q. How is the proposed SOSFA for January 1, 2003 determined?

A. FG&E has utilized actual fuel index data through October 2002 for fuel oil and natural gas market prices to calculate the fuel adjustment. It has applied this fuel index data to the 2003 Standard Offer fuel trigger and price and determined a rate of $0.00000 per kWh. However, this amount will not eliminate SOSFA deferrals by year end 2003.[1] Therefore, FG&E proposes a rate of $0.00660 per kWh to be effective for consumption on and after January 1, 2003. This rate is expected to eliminate all SOSFA balances by year end 2003.

Q. Have you prepared a schedule demonstrating these calculations?

A. Yes. Schedule DJD-1, page 1 demonstrates the calculation of the SOSFA using the detailed fuel index data shown on Schedule DJD-1 pages 2 and 3.

Q. What are the prices used to determine the 12-month averages of fuel index data?

A. The 12 month average market gas price is $3.023 and the 12 month average market oil price is $3.302.

Q. What is the Fuel Adjustment factor calculated to be?

[1] Including FG&E's year end 2000 SOSFA balance of $2,622,479 accumulated between April and December 2000 that was transferred to its SOS balance.

A. The Fuel Adjustment factor is calculated to be 1.00000 and when applied to the base Standard Offer Service rate of $0.04700 per kWh yields the proposed rate of $0.04700 per kWh and an SOSFA of $0.00000.

Q. Is this calculation consistent with the Department precedent?

A. Yes. On December 4, 2000, the Department approved a uniform SOSFA mechanism in dockets D.T.E. 00-66, 00-67, and 00-70. The calculation presented in this filing is consistent with Department precedent in that proceeding. It is also consistent with the methodology approved in FG&E's December 3, 2001 filing.

Q. Do you perceive any problems with the methodology the Department has previously approved?

A. Yes, I do. The methodology is no longer suitable, because FG&E would not collect any revenues to help eliminate the 2002 year end deferrals, nor would there be any revenues collected to offset any of the current costs or expected costs in 2003. The result of employing the Department's approved methodology would be an undercollection of $1.8M in 2003.

Q. What is the current level of deferrals under the SOSFA?

A. The current and forecasted level of deferrals and monthly SOSFA costs are set forth on Schedule DJD-1, pages 5 and 6. This schedule includes FG&E's year end 2000 SOSFA balance of $2,622,479 accumulated between April and December 2000 that was transferred to its SOS balance. The SOSFA has a current deferral balance of $1.25M as of October 31, 2002. Schedule DJD-1, page 5, line 16.

Q. What level of deferrals does FG&E calculate to exist by year end 2002?

A. The SOSFA deferrals are expected to decrease to $772,393 by year end 2002. See Schedule DJD-1, page 5, line 16. Further, FG&E expects that, if the Department allows the proposed SOSFA of $0.00660 per kWh to take effect on January 1, 2003, the current level of deferrals is forecasted to be eliminated near the end of December 2003. See Schedule DJD-1, page 6, line 16. As described above, FG&E transferred the year end 2000 SOSFA balance of $2,622,479 accumulated between April and December 2000 into its Standard Offer Service Charge Account. See Fitchburg Gas and Electric Light Company, D.T.E. 00-66 at 14 (Dec. 4, 2000). Pursuant to D.T.E. 01-103, FG&E has been reducing that amount during calendar year 2002 through its current SOSFA rate.

Q. How is the SOSFA cost per kWh forecasted?

A. The SOSFA cost per kWh through December 2003 is forecasted assuming the market price of oil remains constant over the forecast period at its most recent November 2002 price level. Schedule DJD-1, page 4. The market price of gas is forecasted based on the NYMEX futures contract settlement price for December 6, 2002 as shown in the December 9, 2002 Wall Street Journal. Pursuant to FG&E's current tariff M.D.T.E. No.

44,[2] the fuel trigger point and SOS price of $6.09/MMBtu and $0.04200/kWh is used for October through December 2002 and $7.01/MMBtu and $0.04700 per kWh is used for January through December 2003. The SOSFA cost per kWh is forecasted to steadily increase during 2003 under these assumptions.

Q. What is FG&E's proposal for the SOSFA going forward?

A. FG&E proposes that it continue the SOSFA at the proposed level, until a new SOSFA is approved, and that it file with the Department a mid-year review of current deferrals. Any adjustments to the SOSFA rate may be proposed and reviewed at that time, if deemed to be necessary.

V. PROPOSED REDLINE TARIFFS

Q. When does FG&E propose that the tariff changes presented in this filing take effect?

A. The new rates and tariffs are proposed to become effective for usage consumed on and after January 1, 2003.

Q. Can you briefly describe the changes in these tariffs.

A. The changes in the tariffs, fully reflected in a redlined version attached as Schedule DJD-2, reflect the change in the uniform transition charge ("UTC") from $0.01801 per kWh to $0.01187 per kWh. The tariff sheet for the Energy Efficiency charge is updated for a

[2] FG&E is proposing revisions to this tariff in this filing, but none of these revisions are related to the fuel trigger and corresponding SOSFA calculations.

change to the rate for years 2003-2007. There are also revisions to the External Transmission Charge, Transition Cost Adjustment, Standard Offer Service, Default Service, and Default Service Adjustment. Of course, minor changes, such as tariff sheet numbers and new issue and effective dates, should be mentioned. The redlined version makes all changes quite evident.

Q. Have you provided for the Department a calculation of the UTC?

A. Yes, I have. The UTC is as described below in Section VII, Rate Design and Schedule DJD-4.

Q. Please describe the need for the change to the Energy Efficiency tariff.

A. On February 28, 2002 the Governor signed legislation enacting House 4006 "An Act Promoting Energy Efficiency and Conservation." It is now Chapter 45 of the Acts of 2002 ("the Energy Efficiency and Conservation Act"). The Energy Efficiency and Conservation Act mandates the following:

1. For the period January 1, 2003 through December 31, 2007, investor-owned electric companies in Massachusetts shall collect 2.5 mills for each kilowatt-hour sold and invest it in energy efficiency activities.
2. On January 1, 2006, DOER shall review whether there is a continued need for the charge. If necessary, it shall recommend extension of the charge beyond 2007 to the legislature.

Q. What changes to the tariff are necessitated by the Energy Efficiency and Conservation Act?

A. The Energy Efficiency Charge rate for 2003-2007 will be amended from $0.00025 per kWh to $0.00250 per kWh and the footnote will be updated to address the possibility of future DOER action.

Q. What other tariff sheets are modified?

A. The External Transmission Charge, Schedule ETC, M.D.T.E. No. 97 has been modified to include working capital costs as shown in Ms. Asbury's testimony. The Transition Cost Adjustment, Schedule TCA, M.D.T.E. No. 98 has been modified to incorporate a new interest rate of 9.05% as shown in Mr. Collin's testimony. Standard Offer Service, Schedule SOS, M.D.T.E. No. 99 and Default Service, Schedule DS, M.D.T.E. No. 100 have been revised to reflect costs of providing these services and are discussed by Mr. Collin. Schedule DS also reflects changes in rate classes approved in D.T.E. 02-24/25. Default Service Adjustment, Schedule DSA, M.D.T.E. No. 101 has been revised to reflect the interest rate as described in Mr. Collin's testimony.

Q. Are there any other changes to the tariffs at this time?

A. No.

VI. RATE SUMMARY

Q. Does FG&E's filing contain a Rate Summary?

A. Yes, it does. Schedule DJD-3, pages 1 through 3, summarizes the rates for all of FG&E's rate classes using Standard Offer Service as the generation service.

Q. Please explain Schedule DJD-3.

A. The shaded areas in Schedule DJD-3 are the charges that are displayed on customers' bills. The non shaded areas on Schedule DJD-3 are summed to equal one of the appropriate shaded areas.

Q. Will you provide examples?

A. Yes. For example, the transmission charge (which is displayed in sum on each customer's bill) includes the internal transmission charge, the internal transmission service cost adjustment and the external transmission service charge. The total distribution charge (which is displayed in sum on each customer's bill) includes both the distribution charge and the Seabrook amortization surcharge. The total transition charge (which is displayed in sum on each customer's bill) includes both the transition charge and the default service adjustment.

Q. Has the Department approved this methodology?

A. Yes. This methodology was provided in the Company's rate schedules which were approved in FG&E's Restructuring Plan and later modified and approved in Fitchburg's annual reconciliation filings.

VII. RATE DESIGN

Q. Has FG&E completed a complete redesign of its retail rates?

A. Yes.

Q. Why did FG&E redesign its rates?

A. FG&E had to redesign the rates to include the reconciliations for the Standard Offer Service Charge, the External Transmission Charge, the Internal Transmission Service Cost Adjustment, the Transition Charge, and the Default Service Adjustment in accordance with FG&E's Tariff. Ultimately as well, the rates had to be redesigned to reflect that the inflation adjusted benchmark rates were reduced by the mandatory 15% rate reduction for each class as required by The Electric Restructuring Act.

Q. Are there other reasons FG&E had to redesign the rates?

A. Yes. The Electric Restructuring Act imposed certain additional requirements on restructuring electric and distribution companies. One such requirement permitted each of the companies to seek increases in rates relative to the rate cap to reflect inflationary trends impacting the companies. The other required the companies to collect and remit funds relative to the promotion and sustainment of energy efficiency practices and renewable resources.

Q. How did FG&E redesign its rates to reflect these requirements?

A. FG&E calculated an adjustment to rates to account for inflation. See Section VI below and Schedule DJD-5. In addition, it adjusted the Renewable Resources Charge pursuant to the requirements of the Electric Restructuring Act.

Q. How does the rate design process account for the Standard Offer Service Fuel Adjustment?

A. Actually, it doesn't. It was determined in D.T.E. 00-66 that the Standard Offer Service Fuel Adjustment is a cost recovery mechanism that is added as a surcharge outside of the inflation adjustment.

Q. Please describe the complete rate redesign, taken step-by-step.

A. The rate design process was accomplished in the following manner.

First, the August 1997 charges and total revenues are increased by the 14.5% percent inflation adjustment on each component: customer demand, on- and off-peak energy. This increased level is used as the basis for determining new charges and calculating rate cap percent reductions, as shown in the last column of Schedule DJD-4, pages 1 through 9 (in the upper section under "Inflation Adjusted Total").

Second, the proposed External Transmission Charge is set at $0.00362 per kWh as determined in the External Transmission Charge reconciliation model (Schedule KMA-1) and the Internal Transmission Service Cost Adjustment is set at $0.00005 per kWh as determined in the Internal Transmission Service Cost Adjustment reconciliation model

(Schedule KMA-2). The Default Service Adjustment is set to $0.00000 per kWh as discussed in Mr. Collin's testimony.

Third, the Energy Efficiency Charge remains unchanged at $0.00250 per kWh as described above and the Renewable Resources Charge is adjusted downwards from $0.00075 per kWh to $0.00050 per kWh in accordance with the Electric Restructuring Act.

Fourth, the Standard Offer Service Generation Charge increases from $0.04200 per kWh to $0.04700 per kWh in accordance with FG&E's tariff page, M.D.T.E. No. 99. The total rates including the SOSFA of $0.00660 per kWh are shown for reference to the right in Schedule DJD-4, pages 1 through 9, after the rate cap calculations are complete.

Q. Has FG&E altered the Seabrook Amortization Surcharge ("SAS")?

A. No. The SAS remains unchanged.

Q. Are there other changes to the rate redesign?

A. Yes. The Transition Cost Charge and the Default Service Adjustment are initially set to zero for the purposes of rate design. The distribution and customer charges remain at their current levels effective December 2, 2002 as approved in D.T.E. 02-24/25.

Q. Why is the Transition Charge initially set at zero?

A. The Transition Charge is initially set to zero for simplicity in order to determine the level of revenues produced by the other rate components. It is quickly substituted with a formulaic derivation of the class Transition Charge based on the other rate components.

Q. Has the methodology you employed been reviewed by the Department and approved for use in FG&E's rate design?

A. Yes.

Q. How do you proceed to determine the Transition Charge levels under the direction by the Department that such charges be uniform?

A. The Transition Charge levels are determined for each class on a cents per kWh basis by multiplying the total inflation adjusted August 1997 revenue by 85%, subtracting the revenue achieved by all of the other individual rate components exclusive of the Transition Charge, and dividing by the total annual kWh sales. This was done for each class as a first step in developing the transition charges. A different amount is computed for each class. The lowest class charge is chosen as the UTC. The class figures are further adjusted as discussed below to comply with the UTC requirement.

The proposed Total Company UTC was determined to be $0.01187 per kWh. This is the highest transition charge possible to achieve the minimum fifteen percent rate reduction for all rate classes.

Q. How is the UTC then applied to all customer classes?

A. Each class was revisited to establish the charges for the proposed UTC, by rate component. Each of the transition charge rate components is determined by applying the difference between the total inflation adjusted August 1997 rate components, decreased by the appropriate percent decrease determined exclusive of the change in customer charges, and by subtracting each of the other proposed rate components. This design ensures that each component receives as close to the 15 percent decrease as possible using a UTC.

Q. Have you supplied worksheets that prove the decrease that will impact each class of FG&E customers?

A. Yes, I have. The detailed rate design worksheets and proof of the 15% decrease for each class are shown on Schedule DJD-4, pages 1 through 9. This is a demonstration for the class as a whole. Schedule DJD-6 demonstrates the rate reduction for individual customers based on assumed usage levels. In pages 1-18, the calculated August 1997 revenue is adjusted upwards by the 14.50% inflation adjustment for comparison purposes.

Q. The Electric Restructuring Act requires a Farm Credit be implemented for those customers that qualify. Have you ensured provision for the Farm Credit?

A. Yes. Schedule DJD-4, page 10, details the Farm Credits for those customers who qualify as persons or corporations engaged in the business of agriculture or farming, as defined pursuant to section 1A of Chapter 128 of the General Laws.

Q. What is the impact on distribution revenue as a result of implementation of the proposed rate design?

A. The proposed rate design is revenue-neutral. No changes were made to distribution rates.

Q. Was there any need for adjustments to the transition charge for any class as a result of applying the uniform transition charge, as has been done in the past?

A. For the large general service GD-3 class, the initial application of the UTC to each rate component resulted in a negative transition charge for the off peak kWh component of the rate. FG&E shifted $374,592 from the on peak kWh component to the off peak kWh component to eliminate the negative transition charge. This resulted in the on peak kWh charge decreasing from $0.00850/kWh to $0.00525/kWh and the off peak kWh component increasing from -$0.00336/kWh to $0.00000/kWh.

Q. Were there any other adjustments to transition charge class rate components?

A. No.

VIII. INFLATION ADJUSTMENT

Q. Why is FG&E proposing an inflation adjustment?

A. FG&E adjusts its retail delivery service rates each year by an inflation index in accordance with the Electric Restructuring Act and per Department Order in D.T.E. 97-115/98-120.

Q. How is the inflation adjustment determined?

A. FG&E uses the United States Consumer Price Index ("US-CPI"), for all urban consumers, series id CUUR0000SA0, as the appropriate price index to measure inflation. This index is published by the U.S. Department of Labor, Bureau of Labor Statistics.

Q. Has this method been approved by the Department?

A. Yes, it has.

Q. Please explain.

A. Yes. Schedule DJD-5, Page 1 of 1, shows the history of the US-CPI from July 1997 through October 2002 and projected data through June 2003. The projected data were calculated pursuant to the Department's guidelines in its December 17, 1999 letter to the electric distribution companies regarding the 1999 Transition Charge Reconciliation Filings ("Letter Order"). Also in accordance with the Letter Order, FG&E has computed the inflation adjustment using the mid-point of 2003, the rates being effective for the entire year 2003.

Q. What is the calculated inflation adjustment for 2003 and how is it determined?

A. FG&E proposes that a 14.5 percent inflation adjustment to be applied to its rates in effect during August 1997 for all customer classes. As shown in Schedule DJD-5, FG&E calculated the annual inflation between October 2001 and October 2002 to be 2.03%, or about 0.17% on a monthly basis. This historic inflation level was used to forecast inflation through June, 2003. The CPI is forecast to have risen by 14.5% (as of June 2003) when compared to the inflation levels at the benchmark distribution rate August 1997.

Q. How is this rate in relation to the inflation index used in the last year?

A. The inflation adder has increased from 12.30% to 14.5%. The increase in the inflation adder has the effect of increasing overall rates (excluding the SOSFA) by 1.96% (1.145 divided by 1.123). This amount is mitigated slightly for most classes due to the UTC gap discussed above.

Q. How are retail rates adjusted using this inflation amount?

A. FG&E proposes to increase its total retail rate class revenues by the amount of the inflation increase. See, Schedule DJD-4. From these inflation-adjusted rates, FG&E will maintain the required 15% rate reduction, exclusive of the Standard Offer Service Fuel Adjustment.

Q. Is the inflation increase reflected anywhere else in this filing?

A. The inflation adjustment of 14.5% versus August 1997 rates is incorporated in the rate and tariff changes presented throughout my testimony here.

IX. BILL IMPACTS

Q. Have you provided the bill impacts for the proposed rates?

A. Yes. Schedule DJD-6 demonstrates the bill impacts of the proposed rates for all customer classes. The proposed bill impacts are presented for customers receiving Standard Offer Service, including the Standard Offer Service Fuel Adjustment at Schedule DJD-6, pages 19-36. These impacts are in the range of -2.2% to -6.3% for the majority of customers. The proposed bill impacts are presented for customers receiving Default Service at Schedule DJD-6, pages 37-54. Impacts for the majority of these customers are in the range of -1.3% to -4.2%. This schedule shows the fixed default service rates effective on December 1, 2002, as approved by the Department on October 28, 2002.

X. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.